

# Day Break

Monday, 21 March 2016

## Sector Update

Auto	CP PKR
INDU	970
PSMC	423
HCAR	242

### CKD parts import duties -Existing players

	New	Old
Localised	45%	50%
Non-localised	30%	33%

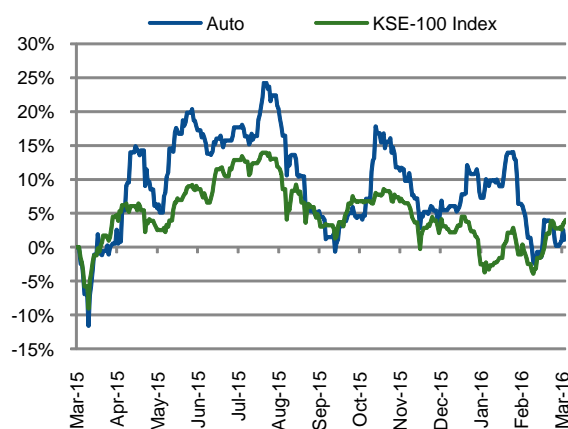
### CKD parts import duties -New players

	New	Old
Localised	25%	0%
Non-localised	10%	0%

### CBU Units

	Rates
CBU up to 800cc	50%
CBU 801 to 1000cc	55%
CBU 1001cc to 1500cc	60%
CBU 1501cc to 1800cc	75%
CBU above 1801cc	100% + 50% RD

### Relative Performance to KSE 100



Source: Bloomberg, KSE 100 & IGI Research

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## Automobile Assemblers

### ADP; Modeling Competitiveness in Automobile Sector

- Economic Coordination Committee (ECC) approved long awaited Automotive Development Policy 2016-2021 (ADP) expected to be launched on 21st Mar-16.
- Incentives offered to Green Field category are a) one-off duty-free import of plant and machinery for setting up an assembly and manufacturing facility, b) reduced Import duty of 25%/10% on localized parts/non localized parts for the 5 years and c) import of 100 vehicles of the same variants in the form of completely built units (CBUs) at 50% of the prevailing duty for test marketing after the groundbreaking of the project.
- In our view, the ADP is positive for new entrants as the focal point is facilitation of capital investments in the sector, to improve volumes and enhance competition. However, we believe the policy is likely to be a point of concern for existing players such as INDU, HCAR, and PSMC

### Automotive Development Policy 2016-2021

Economic Coordination Committee (ECC) approved long awaited Automotive Development Policy 2016-2021 (ADP) expected to be launched on 21st Mar-16. The main objectives of the ADP are a) assistance to boost volumes and enhance competition and quality, b) tariff rationalization to reach a balance between optimal industry growth and tax revenues.

### Setting the ground for new players

Due to lack of competition in Auto Sector, the onus of current ADP is on the entry of new players by reducing the entry barriers and providing them with favorable environment initially. The policy clearly differentiates between the existing players, new and reviving players and ensures that the preferential benefits are for new and reviving player only.

Incentives offered to Green Field category are a) one-off duty-free import of plant and machinery for setting up an assembly and manufacturing facility, b) reduced Import duty of 25%/10% on localized parts/non localized parts for the 5 years and c) import of 100 vehicles of the same variants in the form of completely built units (CBUs) at 50% of the prevailing duty for test marketing after the groundbreaking of the project. As per Engineering Board of Development (EDB), green field category is described as follow:

*"It includes the construction of new and independent automotive assembly and manufacturing facilities by an investor for the production of vehicles of make not already being manufactured in Pakistan"*

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### **Incentive for Sick Units**

According to EDB, brownfield category is defined as: *"It includes non-operational or closed assembly and manufacturing facilities since before June 30, 2013 either independently by original owners or new investors or under joint venture agreement with foreign Principal or by foreign Principal independently through purchase of plant"*

Under new policy, same incentives have been offered to this category like Greenfield, except a shorter time span of 3 years for reduced import duties.

### **Benefits for Existing Players**

All currently operational manufacturers/assemblers will benefit from 2.5% reduction in import duty from 32.5% to 30% on non-localized parts, whereas a 5% duty drop to 45% has been provided for localized parts, for a period of 5 years, applicable from new fiscal year.

CBU import duties which are currently in the range of 50%-75% for cars up to 1800cc engine capacity will be reduced by 10% each year in FY18 and FY19, for all the players.

### **Imports policy unchanged**

With no change in policy for used cars, imports of used vehicles will continue via the Personal Baggage Scheme, Transfer of Residence Scheme and Gift Scheme with the upper age limit of 3 years.

### **Tough times For Current Auto Manufacturers/Assemblers**

In our view, the ADP is positive for new entrants as the focal point is facilitation of capital investments in the sector, to improve volumes and enhance competition. However, we believe the policy is likely to be a point of concern for existing players such as INDU, HCAR, and PSMC due to a) potential competition led by relaxation of entry barriers, and b) reduced duties on import of parts for the new/reviving players. Whereas reduction in duties on imported parts to 30%, same age limit of used cars and 10% duty reduction for CBU imports for 2 years, would likely bode well for existing players, we think.

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### Risk

- Changes in State Bank of Pakistan Policy Rate
- Change in Country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure

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